C O P Y C O P Y

Comptroller 2 April 1953

Chief, Budget Division

Improving budgetary and financial administration by removing the fiscal year limitation on funds available to CIA

1. Problem. -- Would the removal of fiscal year limitations on funds improve budgetary and financial administration, adequately finance CIA operations, and reduce the amount of annual appropriation required?

2. Facts Bearing on the Problem. -- Under the present method of financial operations:

a. Annual appropriations to be held as a reserve for contingencies must be secured in addition to funds to cover known planned operations.

b. Unless contingencies develop, relatively large balances of funds revert to the Treasury as unobligated balances of appropriations.

c. Funds are reported as expended from the parent appropriation accounts when they are transferred to CIA. Since unobligated balances are subsequently transferred to the Certified Claims Account, the effect is that total government expenditures are overstated.

d. In many cases Missions of the Agency are launched on the basis of opportunity without regard to timing in relation to fiscal years. Often commitments to undertake an activity or mission are made during a current fiscal period but the actual operations that legally obligate funds would not commence until a future fiscal period for which appropriated funds are not yet available.

e. In view of the many unique operational projects, it is sometimes impossible to determine Agency fund requirements because they may be contingent upon other conditions.

f. Because of the indicated unusual nature of operations, accounting for funds on a fiscal year limitation basis has become burdensome.

3. Discussion. -- Planning and carrying into effect the CIA programs with all their contingent aspects creates an unusual budgetary and fiscal situation that must be dealt with in a manner not normally practiced by other government agencies.

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At present, we must secure an annual appropriation to cover planned operations as well as a reserve to meet contingencies. The need for all reserve funds may not develop and, therefore, it can be said that appropriations are made in excess of real needs. Since security reasons make it undesirable to request supplemental appropriations, it is essential that a relatively large reserve for contingencies be available every year, regardless of whether or not any need for the reserve materializes. At the end of the fiscal year the unobligated portion of those funds are no longer available for our use. For security reasons, these unobligated funds, the bulk of which result from the fact that needs have not materialized for amounts provided for contingencies, are not returned to the parent appropriation but are transferred to the Certified Claims account for eventual disposition.

Many of the operations of the Agency involve commitments for support beyond the close of the fiscal year during which the operation is launched. In most of these cases, adjustments in program plans could probably be made in light of availability of funds. In others, however, substantial adjustments might nullify the entire project. Funds might be set aside for a project but, due to unforeseen circumstances beyond the Agency's control, operations are delayed until substantial amounts cannot be used during the fiscal year for which provisions were made in the current budget but which were not provided for in the budget for the subsequent year. In many other cases the cost of planned operations cannot be determined until conditions are met by others that are not under the control of this Agency. Thus, effective budget planning is precluded due to operational problems over which the Agency does not have complete control.

Under the present method of allotting funds for covert operations on a fiscal year basis a great deal of extra work is involved in carrying allotment accounts for the current and prior fiscal years. For management purposes, it is preferable that a single continuous record of obligations and expenditures be maintained for each covert operations rather than a separate record of obligations for each fiscal year (i.e., allotment period) with expenditures occurring under such accounts during subsequent allotment periods. This procedure necessarily makes the accounting and reporting system burdensome. Removal of the requirement to maintain separate fiscal year accounts on an obligation basis would provide the desired continuity to fiscal operations and would in no way minimize control over these operations.

In addition to the administrative improvements indicated, the security aspects of CIA operations would be strengthened. Special arrangements have been made to hold Agency cash as a "deposit fund". Normally balances in deposit funds are not transferred to the Certified Claims account, but are held in the account until used. In view of the size of the Agency's operations and the reserve for contingencies, the balance of unused funds which would normally expire on an annual basis is relatively large. Transfer transactions of this character involving large amounts in the deposit fund would direct attention in the central fiscal offices of the government to the accounts of this Agency.

The situation outlined could be greatly improved by the removal of fiscal year limitations. The authority for this approach is clearly stated in Sec. 6a, 6b and c, and Sec. 10b of Public Law 110, 81st Congress, approved June 20, 1949. This law states that "sums transferred to the Agency ... may be expended ... without regard to limitations on appropriations from which transferred;" (underscoring supplied) and "The sums made available to the Agency may be expended without regard to the provisions of law and regulations relating to the expenditure of Government funds."

The application of a fiscal year limitation to funds made available to this Agency was mutually agreed to by representatives of the Bureau of the Budget and of this Agency as a method of controlling the extent of Agency operations. The desired control, however, is actually exercised through approvals of the transfer of cash into CIA accounts and would not be affected in any way by the removal of fiscal year limitations. Reports of financial operations would, of course, be based upon fiscal years and such reports would clearly reflect the need to compare actual operations with planned or budgeted activities.

4. Conclusions. -- The removal of the fiscal year limitation on the funds made available by appropriation is necessary in order to produce the following beneficial results:

a. Better program and fiscal planning;

b. Continuity of operations without the hinderances of fiscal year adjustments and without the question of fiscal year legality of contracts covering more than one year;

c. The total annual appropriation request could be substantially reduced without any impairment in the funds required to adequately finance CIA operations including effective provisions to meet unforeseen needs in a reserve for contingencies;

d. The inflated expenditures now appearing on government books would be eliminated;

e. The accounting and reporting system could be improved;

f. The security aspects of the Agency could be strengthened.

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5. Action Recommended. -- It is recommended that, under the provisions of Public Law 110, the CIA request concurrence of the Bureau of the Budget in the opinion that appropriations made available to CIA are not subject to fiscal year limitations. Such action would, in effect, create a permanent contingency reserve fund because the unobligated balances of appropriations made available to CIA would be carried forward for contingency purposes. Thus, the annual appropriation request would only be for planned current operating expenditures plus or minus any adjustments required in the contingency fund.

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